

One-day default rule: RBI non-committal on relief

By: [Banikinkar Pattanayak](#) | New Delhi | Published: April 17, 2018 5:38 AM



The finance ministry is 'sympathetic' towards bankers' request for increasing the default period for term loans to 30 days from one day, as stipulated by the Reserve Bank of India (RBI) in February, an official source told FE. (Reuters)

The finance ministry is 'sympathetic' towards bankers' request for increasing the default period for term loans to 30 days from one day, as stipulated by the Reserve Bank of India ([RBI](#)) in February, an official source told FE. However, the RBI hasn't yet shown its willingness to change its position, which — it believes — is crucial to an early detection of potential bad debts and

timely resolution of stressed assets. The RBI stipulated in February that even a one-day delay in the repayment of term loans would be considered a default and banks have to report it to the central bank. A final call will be taken by the RBI and the ministry wouldn't like to interfere in the decision-making process of the central bank apart from only making suggestions, the finance ministry source said.

Banks have also sought relaxation from the rule that requires them to finalise a resolution plan in case of a default within 180 days, failing which it goes for insolvency. "The days of lazy banking are over. If we are really serious about tackling the bad debt issue head on, we have to identify potential stressed assets very early and start working on resolution plans. There has to be a behavioural change at banks," said a source familiar with the central bank's thinking. He said banks need not set aside funds for default from day one, "so there isn't much of a material change" so far as provisioning is concerned.

Earlier this month, the RBI had defended its decision before a Parliamentary panel. The central bank rules suggest that if the principal or interest is overdue for one day beyond 30 days, the account is identified as a special mention account-0 (SMA-0). If the delay is for 30-60 days, it comes under the SMA-1 category. If it is overdue for more than 60 days until 90 days, it falls under the SMA-2 category. If repayment isn't made for more than 90 days, it is classified as a non-performing asset (NPA). The RBI has also stressed that if the resolution plan is not implemented within 180 days, insolvency process should be initiated within 15 days from the completion of the six-month period. This means the fate of a defaulting entity will be sealed within 465 days. Banks have to make 40% provision for accounts where insolvency proceedings are invoked.

And if an account of Rs 2,000 crore and above, to start with, fails to service its loans within 91 days, it would be considered a 'default' and a resolution plan will have to be readied. In February, the central bank withdrew schemes such as corporate debt restructuring, flexible restructuring of existing loans for long-term project loans, strategic debt restructuring (SDR), change of control outside of SDRs and Scheme for Sustainable Structuring of Stressed Assets (S4A) and also the joint lenders forum (JLF).